

of averting this process of depletion is to attempt to equalise the rate of discount prevailing in these two financial centres. We are thus led to that form of international monetary relationship which most gravely concerns the Bank in its conservation of the National Eeserve, and which is termed the Foreign Exchanges.

The province of this book would be exceeded—even if the writer possessed the technical knowledge requisite for the task—if an attempt were made to explain the minutiae of the procedure which the Foreign Exchanges involve. A brief and general exposition, however, is needed before the reader can fully appreciate the influences operating upon the Eeserve ; the prudence and sagacity entailed upon the Bank as custodian; and the effects which the process indirectly produces upon the prices of securities.

A simple definition of the phrase "Foreign Exchanges" may be furnished. The term is usually explained as a statement of the means by which the mutual indebtedness between nations is cancelled by payment; or, again, as an exposition of the ways in which foreign bills of exchange (for the discharge of debts owing abroad) are created and used; but the reader should adopt the practical sense of "the rates of monetary exchange between different countries"—that is to say, the amount of money in the currency of the country in which a business transaction arises with a foreign country (and for the settlement of which the money is required) which, at the time of settling that transaction, can be exchanged for another amount of money in the currency of the foreign country where the debt is due.

When a merchant in London sells goods to a merchant in Paris, the goods form an export¹ in respect of England, and an import¹ in respect of France. And so *vice versa*. With regard to the export from London, the English merchant is a creditor of the French merchant; that is to say, the French merchant owes him the price of the goods: similarly, for the export from France, which is an import into England, the French merchant has sold goods to the Englishman, and

¹ Export: Import: derived respectively from the Latin *ex*, out of, *in*, into, and *portare*, to carry.